J.C. Penney Company, Inc.
1989 Annual Report

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Supplemental Information

Copies of the Company's Form 10-K annual report for 1989 to the Securities and Exchange Commission and consolidated Employer Information Reports EEO-1 for 1989 year end to the United States Equal Employment Opportunity Commission will be made available upon request to:

Ms. Nancee Dixon
J.C. Penney Company, Inc.
Public Relations
P.O. Box 659000
Dallas, Texas 75265-9000
Phone: (214) 591-1488

Copies of J.C. Penney Funding Corporation's annual report are available from:

Ms. Heidi Rohloff Deen
J.C. Penney Funding Corporation
P.O. Box 227472
Dallas, Texas 75222-7472
Phone: (214) 591-2021

Inquiries about your stockholder record should be forwarded to:

Mrs. Marty Corna
J.C. Penney Company, Inc.
Securityholder Services
P.O. Box 407
Pittsburgh, Pennsylvania 15230
Phone: 1-800-842-9470
Monday–Friday, 7:30 A.M.–4:00 P.M., EST

William R. Howell
Chairman of the Board

Robert B. Gill
Vice Chairman of the Board

This is JCPenney

JCPenney is a major retailer, with department stores in all 50 states and Puerto Rico. The dominant portion of the Company's business consists of providing merchandise and services to consumers through department stores that include catalog departments. The Company markets predominantly family apparel, shoes, jewelry, accessories, and home furnishings.

Annual Meeting

Our Annual Meeting of Stockholders will be held at 10:00 a.m., Friday, May 18, 1990, at the Ritz Carlton Hotel, 401 Ward Parkway, Kansas City, Missouri. You are cordially invited to attend. A proxy statement, including a request for proxies, will be mailed to stockholders on or about April 12, 1990.

On the Cover

The barque Elissa, flying the ensign of the Galveston Historical Foundation, provides the proper nautical note for the long lined jacket and navy and white polka dot shell by Jason Maxwell and the sarong-draped skirt by O.K. Clothing Company. All in 100 per cent cotton.

Transfer Agents

J.C. Penney Company, Inc.
Securityholder Services
P.O. Box 407
Pittsburgh, Pennsylvania 15230
Phone: 1-800-842-9470
Monday–Friday, 7:30 A.M.–4:00 P.M., EST

Registrar and Transfer Company
61 Broadway, Room 1412
New York, New York 10006

Registrars

Registrar and Transfer Company
61 Broadway, Room 1412
New York, New York 10006

Wilmington Trust Company
Wilmington, Delaware 19899

Exchange Listings

The New York Stock Exchange
(Ticker symbol—JCP)

Brussels and Antwerp Stock Exchanges

To Our Stockholders:

We are pleased to report to you that JCPenney made significant progress in 1989 as measured by four key indicators of corporate performance: sales, income from operations, net income per share, and return on stockholders' equity.

Retail sales rose 8.6 per cent to $16.1 billion. Of this amount, JCPenney stores and catalog accounted for $15.1 billion, with drug stores providing the remainder.

The Company's operations produced record earnings of $822 million in 1989 as opposed to $668 million in 1988. Last year, however, a nonrecurring charge of $20 million for discontinuing an interactive television shopping service called Telaction reduced net income to $802 million while, in 1988, the sale of our former central office in New York City boosted net income by $139 million to $807 million.

On a per share basis, earnings from operations amounted to $6.47 in 1989, up from $4.96 in the preceding year. After the nonrecurring items, the comparable net income figures were, respectively, $6.31 and $6.02. There were approximately nine million fewer shares outstanding on average in 1989.

The return on stockholders' equity in 1989 was 20.8 per cent, double the rate of four years ago. It also represented our best performance in this area since 1968. Our quarterly dividend was raised six cents per share in 1989, with the annual rate becoming $2.24. This marked the eighth increase in ten years; in the same period—in 1987 to be exact—the stock was also split two-for-one.

Our gross margin was favorably impacted in 1989 by the low level of general merchandise inflation—less than one per cent as compared with more than three per cent in the preceding year. Since, for accounting purposes, the cost of the merchandise we sell is calculated on a last-in first-out basis (LIFO), an appreciable decline in inflation from one year to the next can boost gross profit dollars.

The LIFO effect on gross margin as a per cent of retail sales, however, was offset by the high level of promotional activity that was demanded by the intensely competitive department store environment, which was particularly acute at year's end.

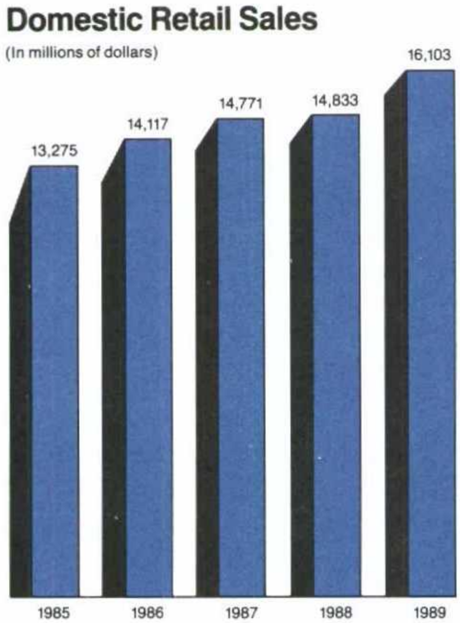
Selling, general, and administrative expenses (SG&A), as a per cent of retail sales, were about equal to the rate of 1988. Interest expense was down slightly for the year. Detailed information about these and other aspects of our business, including a discussion of catalog, drug stores, and financial services, can be found in our Financial Review, which starts on page 9.

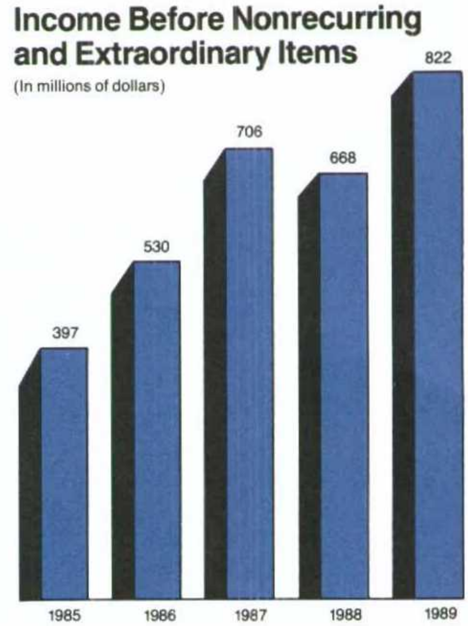
Over the decade of the '80s, I think it is accurate to say, no major retailer in America changed as dramatically as JCPenney. Recognizing that shoppers go to malls, where much of our store space is located, primarily for a broad selection of family and home fashions, we elected to drop merchandise, representing $1.5 billion in sales annually, that did not fall into these categories. The discontinued lines, such as home electronics and photographic equipment, are still accessible to our customers, however, through catalog.

Once our merchandise direction was set, the next step was a reallocation of store space—more than 20 million square feet. This has been accomplished. Today, one floor in a typical, large metropolitan department store is devoted to women's and men's merchandise. The second level houses children's and home furnishings and provides additional space for women's lines.

Financial Highlights (In millions except per share data)

For the Year	1989	1988	1987
Retail sales	**$16,103**	$14,833	$15,332
Net income	**$ 802**	$ 807	$ 608
Primary earnings per share	**$ 6.31**	$ 6.02	$ 4.11
Dividends per common share	**$ 2.24**	$ 2.00	$ 1.48





The square footage allocated to women's merchandise has nearly doubled, men's has more than doubled, and children's has increased in excess of 30 per cent. On the other hand, home and leisure lines now occupy one-third less space.

An added benefit of these changes in merchandise mix is that the ratio of net selling space to gross store space has improved from the 50-50 level of the early 1980s to about 70-30, close to our target ratio of 75-25. At present, almost 25 per cent more space is available to sell merchandise even though the size of a typical new metropolitan department store has decreased 15 per cent from the early 1980s.

As part of the Company's repositioning, we have also modernized, updated, and redesigned our geographic stores, which are scaled down versions of metropolitan department stores. Catalog departments especially complement these smaller size stores.

The transformation of JCPenney from a general merchandiser to a department store with a national presence has been a decade in the making, and we are pleased that in the past year the financial community and the retailing press began to recognize this accomplishment.

Going forward, we will concentrate on three main areas: merchandise assortments, visual merchandising, and customer service. To serve fashion sensitive shoppers, we realize we must offer an increasingly better selection. Significant progress has already been made in upgrading and repositioning many of our private labels, which traditionally have been our great source of strength. We are also committed to increasing our selection of well known and respected department store brands. Our men's division, for example, has recently signed contracts with Palm Beach, Van Heusen, Henry Grethel, and Haggar, while women's has added, among others, Vanity Fair, Harve Bernard, Francine Browner, and Counterparts. In children's, we already offer most of the key national brands, including Healthtex, Spumoni, Weeboks, Toddler University, and Nickelodeon. Our private labels are so dominant in soft home furnishings that they are virtually national brands.

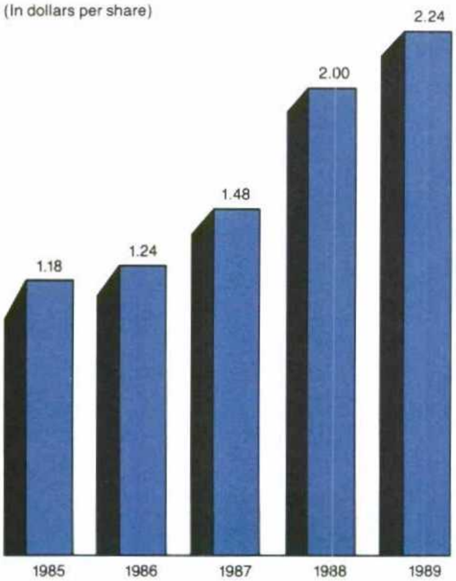
In terms of store appearance, nearly 30 per cent of our capital expenditures over the next five years will be earmarked for existing store improvement, amounting to a total of about one billion dollars. The program will include virtually all of our metropolitan department stores. We are also allocating an ever increasing percentage of our promotional budget to visual merchandising while shifting dollars out of advertising.

Customer service has always been a top priority at JCPenney. In our stores, it begins with the selection and training of people who are friendly and service oriented. It involves motivational programs, such as sales commissions and awards, that recognize associates for exemplary sales performance. It includes ongoing research as to how consumers view aspects of Penney service, such as our merchandise return procedures, for example, and taking appropriate action to assure that we are not only as good as but better than our competition.

To highlight the changes that have taken place in the Penney store, we've prepared a supplement to this Report that will enable you to hear directly from our associates as to how they are approaching merchandise selection, visual merchandising, and customer service.

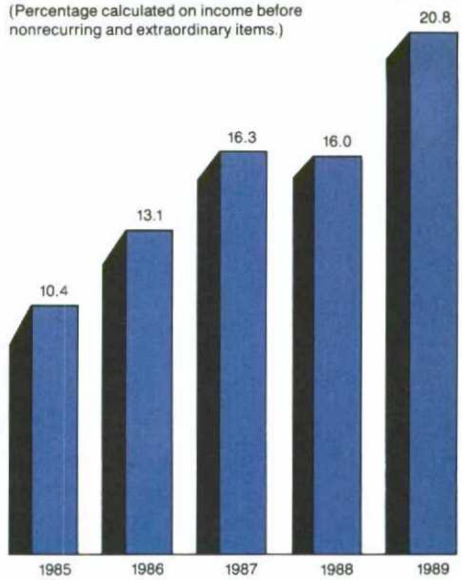
Dividends Per Common Share

(In dollars per share)



Return on Stockholders' Equity

(Percentage calculated on income before nonrecurring and extraordinary items.)



Manager Jim Nichols and his staff will take you on a tour of Newport Center, a large metropolitan department store in Jersey City, New Jersey, just ten minutes away from Wall Street. On the west coast, your hosts will be geographic district manager Sue Young and Grass Valley store manager Ken Smith and his staff, who speak with great pride about their store, located some 65 miles north of Sacramento, California, on Route 49.

I would like to express the utmost respect for two long term Penney partners who have been among the major architects of our store repositioning and who have retired from the Company's service. They are Donald V. Seibert and David F. Miller, and we thank them for their many contributions. Don Seibert retired from the Company's board of directors in May after having been a member since 1969 and chairman from 1974 to 1983. Dave Miller has retired as vice chairman of the board and chief operating officer of JCPenney stores and catalog after 37 years of outstanding service to the Company. On March 1, 1990, vice chairman Robert B. Gill, as we previously reported to you, became responsible for stores and catalog.

Although the measurements of corporate performance and corporate position are customarily expressed in numerical terms, a few fortunate business enterprises have certain assets that never appear on a balance sheet. For JCPenney, these would include a reputation for good value and fair dealing; for having dedicated, service-oriented associates; for being a good place to work; for being a sound Company with which to do business; and for being, through the years, a concerned corporate citizen.

To this list, our aim is to add a wider reputation as a fashion merchant. It is toward this goal that we are directing all our talents, energies, and resources.

As stockholders, you have a special interest in JCPenney. We encourage you to shop our stores and catalog, watch our progress, and let us know from time to time what you like about your Company and where improvements could be made. JCPenney became a $16 billion a year retailer by listening to our customers, stockholders, associates, and suppliers, and then responding to their wants and needs. We welcome your comments and suggestions.

Warmest regards,

William R. Howell
Chairman of the Board

March 27, 1990

Consolidated Statement of Income (In millions except per share data)

J.C. Penney Company, Inc. and Subsidiaries

For the Year	1989	1988	1987
Revenue			
Retail sales	**$16,103**	$14,833	$15,332
Other revenue	**302**	463	415
Total revenue	**16,405**	15,296	15,747
Costs and expenses			
Cost of goods sold, occupancy, buying, and warehousing costs	**10,492**	9,717	10,152
Selling, general, and administrative expenses	**4,129**	3,815	3,743
Costs and expenses of other businesses	**279**	487	401
Interest expense, net	**303**	307	300
Nonrecurring items	**32**	(222)	172
Total costs and expenses	**15,235**	14,104	14,768
Income before income taxes	**1,170**	1,192	979
Income taxes	**368**	385	371
Net income	**$ 802**	$ 807	$ 608
Earnings per common share			
Primary	**$ 6.31**	$ 6.02	$ 4.11
Fully diluted	**$ 5.86**	$ 5.92	$ 4.11

Consolidated Statement of Reinvested Earnings (In millions)

Reinvested earnings at beginning of year	**$3,057**	$3,213	$3,379
Net income	**802**	807	608
Unrealized change in equity securities and translation adjustment	**6**	2	(4)
Retirement of common stock	**(156)**	(688)	(514)
Two-for-one stock split	**—**	—	(38)
Common stock dividends declared	**(271)**	(260)	(218)
Preferred stock dividends declared, net of taxes	**(35)**	(17)	—
Reinvested earnings at end of year	**$3,403**	$3,057	$3,213

See Summary of Accounting Policies on page 9 and 1989 Financial Review on pages 9 through 21.

Independent Auditors' Report

To the Stockholders and Board of Directors of J.C. Penney Company, Inc.:

We have audited the accompanying consolidated balance sheets of J.C. Penney Company, Inc. and Subsidiaries as of January 27, 1990, January 28, 1989, and January 30, 1988, and the related consolidated statements of income, reinvested earnings, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of J.C. Penney Company, Inc. and Subsidiaries as of January 27, 1990, January 28, 1989, and January 30, 1988, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

1601 Elm Street, Dallas, Texas 75201
February 15, 1990

KPMG Peat Marwick

Consolidated Balance Sheet (In millions)

J.C. Penney Company, Inc. and Subsidiaries

Assets	1989	1988	1987
Current assets			
Cash and short term investments of $397, $653, and $84	**$ 408**	$ 670	$ 112
Receivables, net	**4,353**	4,233	4,536
Merchandise inventories	**2,613**	2,201	2,350
Prepaid expenses	**165**	142	132
Total current assets	**7,539**	7,246	7,130
Properties, net of accumulated depreciation and amortization of $1,554, $1,429, and $1,346	**3,237**	3,034	2,910
Other assets	**1,922**	1,974	1,694
	$12,698	$12,254	$11,734
Liabilities and Stockholders' Equity			
Current liabilities			
Accounts payable and accrued expenses	**$ 1,794**	$ 1,666	$ 1,595
Short term debt	**1,288**	756	955
Current maturities of long term debt	**164**	244	—
Deferred taxes, principally installment sales	**154**	119	136
Total current liabilities	**3,400**	2,785	2,686
Long term debt	**2,755**	3,064	2,608
Deferred taxes	**1,124**	1,346	1,375
Other liabilities	**1,066**	1,102	892
Stockholders' equity			
Preferred stock, without par value: Authorized, 25 million shares—issued, 1 million shares of Series B LESOP convertible preferred	**704**	706	—
Guaranteed LESOP obligation	**(619)**	(668)	—
Common stock, par value 50¢: Authorized, 500 million shares—issued, 120, 123, and 138 million shares	**865**	862	960
Reinvested earnings	**3,403**	3,057	3,213
Total stockholders' equity	**4,353**	3,957	4,173
	$12,698	$12,254	$11,734

See Summary of Accounting Policies on page 9 and 1989 Financial Review on pages 9 through 21.

Company Statement on Financial Information

The Company is responsible for the information presented in this Annual Report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and are considered to present fairly in all material respects the Company's results of operations, financial position, and cash flows. Certain amounts included in the consolidated financial statements are estimated based on currently available information and judgment of the outcome of future conditions and circumstances. Financial information elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

The Company's system of internal accounting controls is supported by written policies and procedures and supplemented by a staff of internal auditors. This system is designed to provide reasonable assurance, at suitable costs, that assets are safeguarded and that transactions are executed in accordance with appropriate authorization and are recorded and reported properly. The system is continually reviewed, evaluated, and, where appropriate, modified to accommodate current conditions. Emphasis is placed on the careful selection, training, and development of professional managers.

An organizational alignment that is premised upon appropriate delegation of authority and division of responsibility is fundamental to this system. Communication programs are aimed at assuring that established policies and procedures are disseminated and understood throughout the Company.

The consolidated financial statements have been audited by independent auditors whose report appears on page 4.

The Audit Committee of the Board of Directors is composed solely of directors who are not officers or employees of the Company. The Audit Committee is responsible for recommending to the Board the engagement of the independent auditors for the purpose of conducting the annual audit of the Company's consolidated financial statements. Company personnel, including internal auditors, and the independent auditors meet periodically with the Audit Committee to review financial statements and discuss auditing and financial reporting matters.

Consolidated Statement of Cash Flows (In millions)

J.C. Penney Company, Inc. and Subsidiaries

For the Year	1989	1988	1987
Operating activities			
Net income	**$ 802**	$ 807	$ 608
Gain on sale of headquarters building	**—**	(222)	—
Deferred taxes	**(187)**	(46)	(112)
Depreciation and amortization	**275**	258	241
Amortization of original issue discount	**46**	60	52
Nonrecurring items	**32**	—	172
Change in cash from:			
Customer receivables	**(130)**	337	70
Inventories, net of trade payables	**(349)**	273	(170)
Other assets and liabilities, net	**31**	(169)	(56)
	520	1,298	805
Investing activities			
Capital expenditures	**(477)**	(481)	(376)
Proceeds from sale of headquarters building	**—**	302	—
Other investments	**(2)**	(7)	(55)
	(479)	(186)	(431)
Financing activities			
Increase (decrease) in short term debt	**532**	(199)	427
Issuance of long term debt	**—**	200	202
Payments of long term debt	**(373)**	(214)	(728)
Common stock retired, net	**(159)**	(781)	(589)
Preferred stock issued (retired)	**(2)**	706	—
Dividends paid, preferred and common	**(301)**	(266)	(213)
	(303)	(554)	(901)
Net increase (decrease) in cash and short term investments	**(262)**	558	(527)
Cash and short term investments at beginning of year	**670**	112	639
Cash and short term investments at end of year	**$ 408**	$ 670	$ 112
Supplemental cash flow information			
Interest paid	**$ 301**	$ 278	$ 281
Interest received	**$ 33**	$ 29	$ 24
Income taxes paid	**$ 559**	$ 350	$ 407

See Summary of Accounting Policies on page 9 and 1989 Financial Review on pages 9 through 21.

Management's Discussion and Analysis of Results of Operations and Financial Position

Results of operations	1989	1988	1987
Retail sales, per cent increase	**8.6**	0.4	4.6
Gross margin, per cent of retail sales	**34.8**	34.5	33.8
Selling, general, and administrative expenses, per cent of retail sales	**25.6**	25.7	24.4
Interest expense, net, per cent of retail sales	**1.9**	2.1	2.0
Income before income taxes and nonrecurring items, per cent of total revenue	**7.3**	6.3	7.3
Income before nonrecurring items, per cent of total revenue	**5.0**	4.4	4.5

Net Income. Income before nonrecurring items increased 23.0 per cent to $822 million from $668 million in 1988 and compares with $706 million in 1987. The increase in 1989 is the result of higher sales, a LIFO credit, and a reduction in the costs and expenses of other businesses. The decline in 1988 was primarily attributable to a significant increase in the LIFO reserve and the costs of discontinuing home electronics, hard sporting goods, and photographic equipment. In 1987, income increased due to higher sales and tight expense controls.

Income per share on a primary basis, before nonrecurring items, was $6.47, up from $4.96 in 1988, and $4.77 in 1987. Income per share in 1989 and 1988 benefited from fewer shares of common stock outstanding, due to the stock buy back programs of 1987 and 1988.

Nonrecurring items in 1989 reflect a pre-tax provision of $32 million for discontinuing Telaction, a subsidiary that had offered an interactive television shopping service. This provision reduced net income by $20 million, and primary earnings per share by 16 cents. In 1988, the Company recorded a pre-tax gain of $222 million on the sale of its former corporate headquarters building. This gain increased the Company's earnings by $139 million, and primary earnings per share by $1.06. In 1987, nonrecurring items included the provision for relocation of the corporate headquarters to Dallas, Texas, and the loss on the sale of the Belgian operation, which together reduced net income and primary earnings per share by $98 million and 66 cents, respectively.

Net income, including all nonrecurring items, decreased 0.7 per cent in 1989 to $802 million. Net income in 1988 was $807 million, up 32.7 per cent from the previous year's $608 million.

Sales. Retail sales increased 8.6 per cent to $16,103 million in 1989. The sales increase is the result of the Company's repositioning strategies which focused its merchandise mix on women's, men's, and children's apparel and home furnishings. For the year, store sales increased 10 per cent in women's, 9 per cent in men's, 14 per cent in children's, 7 per cent in home furnishings, and catalog departments increased 10 per cent. Retail sales declined in 1988 due to the phase out of home electronics, photography, and hard sporting goods merchandise from retail stores and were impacted in 1987 by the sale of the Belgian operation.

Revenues of non-retail businesses declined in 1989 principally due to the Company's exit from the casualty insurance business. The Company did not incur any significant gain or loss in exiting this business.

Costs and Expenses. Gross margin, as a per cent of retail sales, improved 30 basis points in 1989. The LIFO method of inventory valuation had a significant positive effect on gross margin in 1989. As a result of a lower level of inflation in apparel merchandise than in the previous two years and an increase in the level of inventory in 1989, the LIFO credit amounted to $42 million as compared with a charge of $125 million in 1988, and a charge of $45 million in 1987. Excluding the effects of LIFO, gross margin, as a per cent of retail sales, declined 80 basis points in 1989 as a result of increased promotional activity. Gross margin, as a per cent of retail sales, improved in 1988 due to the greater emphasis on family apparel, lower markdowns due to lower levels of inventory, and the sale of the low margin Belgian operation in 1987. Gross margin improved slightly in 1987.

SG&A expense, expressed as a per cent of retail sales, decreased slightly in 1989 to 25.6 per cent from 25.7 per cent in 1988. This was a result of higher sales volume. SG&A expense dollars increased 8.2 per cent in 1989 due primarily to higher salaries and personnel related costs resulting from increased sales volume. In 1988, the SG&A expense ratio increased due to lower sales volume. In 1987, this expense ratio declined slightly. SG&A dollars increased a modest 1.9 per cent and 2.0 per cent in 1988 and 1987, respectively. Finance charge revenue, which offsets these expenses, was reduced in 1989 and 1988 due to the sale of a portion of the Company's credit card receivables. While SG&A has been negatively impacted in the past two years as a result of these transactions, interest expense has benefited from reduced borrowings.

Salary expense and occupancy costs benefited in 1989 from cost reductions associated with the mid-1988 relocation of the Company's headquarters to Dallas, Texas. Salary expense reductions were achieved by a lower salary structure while occupancy costs benefited from lower rent, real estate taxes, operating costs, and a 35 per cent reduction in square footage. Savings approximating $30 million for the year were realized from salaries and occupancy-related costs. These savings are expected to continue for the foreseeable future. Additional benefits were realized through a reduction of interest expense from the proceeds of the sale of the former headquarters building in New York City.

Costs and expenses of other businesses, at $279 million, was $208 million under last year. The decrease was attributable to the sale of the casualty insurance operation, the discontinuance of Telaction, and the conversion of Shop Television Network to the JCPenney Television Shopping Channel. Costs and expenses of other businesses were $401 million in 1987.

Interest expense has been flat over the past three years. Interest expense in both 1989 and 1988 was favorably impacted by reduced borrowings resulting from the sales of a portion of the credit card receivables, the sale of convertible preferred stock to the leveraged employee stock ownership plan (LESOP), and by the sale of the former headquarters building. In 1987, interest expense declined as a result of benefits realized from the debt restructure program, lower average borrowing levels, and lower interest rates.

The effective income tax rate for 1989 was 31.5 per cent compared with 32.3 per cent and 37.9 per cent for 1988 and 1987, respectively. As a result of the Tax Reform Act of 1986, income taxes were reduced $52 million, $42 million, and $17 million in 1989, 1988, and 1987, respectively, due to the payment of a portion of the taxes on installment sales previously deferred at higher tax rates. The reduction in 1988 was largely due to the change in the statutory rate to 34 per cent from 39 per cent in 1987. In 1990,

income taxes will be reduced by about $52 million by the final reduction of deferred taxes on installment sales after which tax rates will rise to more closely approximate statutory rates. The Financial Accounting Standards Board issued Statement No. 96 (Accounting for Income Taxes) in 1987. The Company has not adopted this standard. For further information, see page 20.

Financial Position. The Company generated $520 million in cash from operating activities in 1989 as compared to $1,298 million in 1988 and $805 million in 1987. Cash generated through operating activities decreased $778 million during 1989 due principally to planned increases in inventory.

Merchandise inventories increased to $2.6 billion in 1989, up 19 per cent from 1988. The quality and quantity of inventory has increased to support the Company's strategy of increasing sales productivity and better serving the needs of its customers. Inventories decreased 6 per cent in 1988 and increased 8 per cent in 1987. In 1989, the Company continued to concentrate its merchandise mix on women's, men's, and children's apparel and soft home furnishings.

Customer accounts receivable were $4.0 billion at the end of 1989, or 3 per cent over the level at the end of 1988. The increase in the 1989 receivables level is due to the higher sales volume coupled with an increase in the utilization of the Company's credit card by cardholders. The increase is despite the sale of $350 million of customer accounts receivable in November 1989. In 1988, $250 million of asset-backed certificates were sold in a similar transaction in the third quarter. The primary objective of these transactions was to increase the financial flexibility of the Company's capital structure by providing access to a significant source of funds. Customer accounts receivable were $3.9 billion at the end of 1988, or about 8 per cent below the level at the end of 1987.

Property, plant, and equipment, at $3.2 billion, was $203 million above the level of 1988. Capital expenditures recorded in 1989 were $519 million, $32 million above the level of the preceding year. The increase in capital expenditures was principally related to the cost of updating JCPenney stores. Capital expenditures were $376 million in 1987. The Company presently projects capital expenditures of approximately $2 billion over the next three years. These expenditures include the cost of building a new headquarters in Plano, Texas, expected to be completed by late 1992, and a substantial portion of the costs for constructing a seventh catalog distribution center in Virginia, scheduled to open in 1993.

During 1989, the Company completed its debt restructure program by calling two issues of high coupon long term debt totaling $143 million. These calls followed repayments of $152 million for two high coupon long term debt issues in 1988.

Total debt at year end includes $619 million of borrowings by the LESOP, which is guaranteed by the Company. The source of funds to repay the LESOP debt will be dividends from the Series B preferred stock and cash contributions by the Company, totaling approximately $100 million in each of the next nine years.

Stockholders' equity was $4.4 billion at the end of 1989, an increase of $396 million from the previous year. Stockholders' equity was reduced in 1989 by $177 million principally from purchases in the open market of common stock under the stock buy back program approved in 1988 following the inception of the LESOP. Since the first stock buy back program, begun in 1987, the Company has purchased a total of 32 million shares of common stock at a cost of $1.6 billion.

The Company anticipates the major portion of its cash requirements during the next few years to finance its operations, store updating, and expansion will continue to be generated internally from operations. The Company will continue to review all expenditures to maximize financial returns and maintain financial flexibility.

Impact of Inflation and Changing Prices. The impact of inflation on the Company has lessened in recent years as the rate of inflation has moderated. Inflation causes increases in the cost of doing business including capital expenditures. The effects of rising costs cannot always be passed along to customers by adjusting prices because of competitive conditions. By striving to control costs, the Company attempts to minimize the effects of inflation on its operation.

Additional Information. For additional discussion and analysis of 1989, see the 1989 Financial Review on pages 9 through 21.

Summary of Accounting Policies

The dominant portion of the Company's business consists of selling merchandise and services to consumers through department stores that include catalog departments.

Basis of Consolidation. The consolidated financial statements present the results of J.C. Penney Company, Inc. and all of its wholly-owned and majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Definition of Fiscal Year. The Company's fiscal year ends on the last Saturday in January. Fiscal year 1989 ended January 27, 1990, 1988 ended January 28, 1989, and 1987 ended January 30, 1988. They each comprised 52 weeks. The accounts of JCPenney Financial Services and JCPenney National Bank are on a calendar year basis.

Retail Sales. Retail sales include merchandise and services, net of returns, and exclude sales taxes.

Finance Charge Revenue. Finance charge revenue arising from the JCPenney credit card customer accounts receivable is treated as a reduction of selling, general, and administrative expenses in the consolidated statement of income.

Short Term Investments. Cash invested in instruments with maturities of three months or less from time of investment is reflected as short term investments.

Merchandise Inventories. Substantially all merchandise inventories are valued at the lower of cost (last-in, first-out) or market, determined by the retail method.

Depreciation. The cost of buildings and equipment is depreciated on a straight line basis over the estimated useful lives of the assets. The principal annual rates of depreciation are 2 per cent for buildings, 5 per cent for warehouse fixtures and equipment, and 10 per cent for selling fixtures and equipment. Improvements to leased premises are amortized on a straight line basis over the expected term of the lease or their estimated useful lives, whichever is shorter.

Deferred Charges. Expenses associated with the opening of new stores are written off in the year of store opening, except those of stores opened in January, which are written off in the following fiscal year. Catalog preparation and printing costs are written off over the estimated productive lives of the catalogs, not to exceed six months.

1989 Financial Review

Earnings per common share (In millions, except per share data)	**1989**	1988	1987
Primary			
Net income	**$ 802**	$ 807	$ 608
Dividend on preferred stock (after-tax)	**35**	17	—
Adjusted net income	**$ 767**	$ 790	$ 608
Weighted average number of shares	**122**	131	148
Net income per share	**$6.31**	$6.02	$4.11
Fully diluted			
Net income	**$ 802**	$ 807	$ 608
Assumed additional contribution to LESOP (after-tax) if preferred stock is fully converted	**18**	—	—
Adjusted net income	**$ 784**	$ 807	$ 608
Number of shares			
Weighted average number of shares (primary)	**122**	131	148
Convertible preferred stock and other shares	**12**	5	—
Weighted average number of shares	**134**	136	148
Net income per share	**$5.86**	$5.92	$4.11

Nonrecurring items (In millions, except per share data)	**1989**	1988	1987
Provision for discontinuance of Telaction	**$ (32)**	$ —	$ —
Gain on sale of headquarters building	**—**	222	—
Provision for relocating corporate headquarters	**—**	—	(140)
Provision for sale of Belgian operation	**—**	—	(32)
Total pre-tax gain (loss)	**$ (32)**	$ 222	$(172)
After-tax gain (loss)	**$ (20)**	$ 139	$ (98)
Primary earnings per share increase (decrease)	**$(.16)**	$1.06	$ (.66)

Retail Businesses

Retail sales in 1989 were $16,103 million, an increase of 8.6 per cent from $14,833 million in 1988.

		Per cent increase 1989 vs. 1988			Per cent increase (decrease) 1988 vs. 1987		
Retail sales (In millions)	**1989**	All units	Comparative units	1988	All units	Comparative units	1987
JCPenney stores	**$14,469**	8.3	7.1	$13,364	(0.5)	(2.2)	$13,428
Catalog	**3,205**	9.8	12.4	2,918	12.9	13.6	2,585
Intracompany elimination	**(2,558)**	n/a	n/a	(2,331)	n/a	n/a	(2,033)
Total JCPenney stores and catalog	**15,116**	8.4	7.2	13,951	(0.2)	(1.9)	13,980
Drug stores	**987**	11.9	9.2	882	11.4	9.4	791
Domestic sales	**16,103**	8.6	7.2	14,833	0.4	(1.3)	14,771
Belgian operation*	**—**			—			561
Total	**$16,103**			$14,833			$15,332

The intracompany elimination represents the duplication of those catalog sales made through JCPenney stores and also included in Catalog. For further analyses of retail sales, see the discussion below and the Five Year Operations Summary on page 23.

**Sold in 1987.*

		Per cent increase 1989 vs. 1988			Per cent increase (decrease) 1988 vs. 1987		
JCPenney stores' sales (In millions)	**1989**	All units	Comparative units	1988	All units	Comparative units	1987
Metropolitan markets	**$12,252**	8.3	7.1	$11,313	(1.3)	(2.2)	$11,463
Geographic markets	**2,217**	8.1	6.4	2,051	4.4	2.1	1,965
Total	**$14,469**	8.3	7.1	$13,364	(0.5)	(2.2)	$13,428

Metropolitan market stores are located primarily in regional comparison shopping centers.

The Company had 693 stores in metropolitan markets in operation at year end with an aggregate of 94.5 million gross square feet of selling space. Sales per square foot were approximately $128 for stores in operation throughout 1989. The Company continues to open new stores as opportunities arise and to close stores that do not meet performance objectives.

Geographic market stores are located in nonmetropolitan areas and in satellite towns within metropolitan areas.

At year end, the Company had 635 geographic market stores in operation with an aggregate of 18.3 million gross square feet of selling space. Sales per square foot were approximately $119 for stores in operation throughout 1989. The Company continues to expand into new markets and close unproductive stores.

JCPenney store openings/closings	**1989**	1988	1987
Metropolitan market stores			
Beginning of year	**698**	699	707
Openings	**13**	20	12
Closings	**(18)**	(21)	(20)
End of year	**693**	698	699
Geographic market stores			
Beginning of year	**657**	679	696
Openings	**25**	23	20
Closings	**(47)**	(45)	(37)
End of year	**635**	657	679

Catalog expands the Company's retailing capabilities by offering a wide range of merchandise to complement the stores' assortments. Merchandise offerings, the majority of which represent lines of merchandise also found in JCPenney stores, include family fashions and home furnishings as well as automotive, sporting goods, home electronics, and other hardlines. Two general catalogs are published, Fall & Winter and Spring & Summer, and each is circulated to in excess of 10 million customers. The general catalogs are supplemented by some 50 seasonal, promotional, and specialty catalogs. In order to address consumer trends toward electronic media retailing, the JCPenney Television Shopping Channel was inaugurated by catalog in 1989 and was available to over seven million cable television subscribers at the end of the year.

Virtually all customer orders are called toll free to 16 telephone sales centers, where merchandise availability is confirmed or alternate selections offered. Most catalog orders are delivered within 48 hours from one of six catalog distribution centers. The majority of orders are shipped to catalog departments in JCPenney stores, Drug stores, and to freestanding JCPenney catalog sales centers and independent catalog sales merchants.

		Per cent increase 1989 vs. 1988			Per cent increase 1988 vs. 1987		
Catalog sales (In millions)	**1989**	All units	Comparative units	1988	All units	Comparative units	1987
JCPenney stores							
Metropolitan markets	**$1,694**	8.7	10.4	$1,558	13.4	13.5	$1,374
Geographic markets	**637**	6.8	12.5	597	12.7	14.5	530
Freestanding operations	**227**	29.5	32.6	176	36.6	12.8	129
	2,558	9.8	12.6	2,331	14.7	13.7	2,033
Drug stores	**101**	7.8	7.7	94	11.6	10.6	84
Sales merchants	**79**	33.8	n/a	59	33.5	n/a	44
Other, principally outlet stores	**467**	7.6	n/a	434	2.2	n/a	424
Total	**$3,205**	9.8	12.4	$2,918	12.9	13.6	$2,585

Number of catalog units	**1989**	1988	1987
JCPenney stores, metropolitan markets	**693**	698	699
JCPenney stores, geographic markets	**635**	657	679
Freestanding	**276**	216	172
Drug stores	**126**	117	120
Sales merchants	**225**	176	153
Other, principally outlet stores	**16**	15	14
Total	**1,971**	1,879	1,837

Drug stores, operating under the name Thrift Drug or Treasury Drug, with an aggregate of 4.7 million gross square feet of selling space, offer typical drug store merchandise, including prescription drugs along with health and beauty aid products. Thrift Drug's mail order pharmacy operation services the maintenance prescription needs of customers from corporations and organizations. During 1989, 39 drug stores were opened and two were closed. At year end, the Company operated 471 drug stores and four mail order pharmacies.

Assets

Receivables (In millions)	**1989**	1988	1987
Customer receivables	**$4,007**	$3,876	$4,213
Less allowance for doubtful accounts	**72**	71	71
Customer receivables, net	**3,935**	3,805	4,142
Other receivables	**418**	428	394
Receivables, net	**$4,353**	$4,233	$4,536

In 1989, the Company transferred a portion of its customer accounts receivable to a trust which, in turn, sold $350 million of certificates, representing undivided ownership interests in the trust, in a public offering. In a similar transaction in 1988, $250 million of certificates were sold in a public offering. At the date of sale of the 1989 certificates, $728 million of customer accounts receivable had been transferred to the trust for both the 1989 and 1988 transactions. In accordance with Financial Accounting Standards Board Statement No. 77, the Company recorded these transfers of receivables as sales. No gain or loss was recognized at the date of sale. The 1989 certificates were sold to yield 9.19 per cent with an expected average life of ten years. The 1988 certificates were sold to yield 9.13 per cent with an expected average life of three years.

As of January 27, 1990, the outstanding balances of the receivables and the certificates were $909 million and $600 million, respectively. The Company owns the remaining undivided interest in the trust not represented by the certificates and will continue to service all receivables for the trust.

Under the terms of the sale, reserve funds available to the trust were established from the cash flows generated by the receivables to absorb defaulted accounts up to a certain limit. Additionally, the Company has made available to the trust irrevocable letters of credit that may be drawn upon should the reserve funds be exhausted.

Merchandise inventories (In millions)	**1989**	1988	1987
Merchandise inventories, at lower of cost (FIFO) or market	**$2,969**	$2,599	$2,623
LIFO reserve	**(356)**	(398)	(273)
Merchandise inventories, at lower of cost (LIFO) or market	**$2,613**	$2,201	$2,350

Properties (In millions)	**1989**	1988	1987
Land	**$ 171**	$ 162	$ 164
Buildings			
Owned	**1,539**	1,426	1,430
Capital leases	**247**	247	247
Fixtures and equipment	**2,299**	2,137	1,983
Leasehold improvements	**535**	491	432
	4,791	4,463	4,256
Less accumulated depreciation and amortization	**1,554**	1,429	1,346
Properties, net	**$3,237**	$3,034	$2,910

Capital expenditures (In millions)	**1989**	1988	1987
Land	**$ 9**	$ 10	$ 56
Buildings	**113**	81	62
Fixtures and equipment	**330**	319	218
Leasehold improvements	**67**	77	40
Total capital expenditures	**$519**	$487	$376

Expenditures for existing stores, primarily modernizations and updates, were $246 million in 1989, as compared with $205 million in 1988 and $160 million in 1987. The increase in 1989 capital expenditures is principally related to updating JCPenney stores. The increase in capital expenditures in 1988 represents the cost of converting space in JCPenney stores formerly devoted to the discontinued home electronics, photography, and hard sporting goods lines to other merchandise, primarily women's apparel. Expenditures in 1987 included $52 million for land for the new corporate headquarters.

Liabilities and Stockholders' Equity

Accounts payable and accrued expenses (In millions)	**1989**	1988	1987
Trade payables	**$ 708**	$ 646	$ 525
Accrued salaries, vacations, profit-sharing, and bonuses	**390**	348	401
Taxes, including income taxes	**258**	300	244
Worker's compensation and public liability insurance	**112**	95	65
Common dividend payable	**67**	62	51
Other	**259**	215	309*
Total	**$1,794**	$1,666	$1,595

**Includes provision for relocation of corporate headquarters.*

Short term debt (In millions)	**1989**	1988	1987
Commercial paper	**$1,255**	$ 663	$ 831
Master notes and other	**33**	93	124
Short term debt	**$1,288**	$ 756	$ 955
Average borrowings	**$1,266**	$1,194	$ 889
Peak borrowings outstanding	**$2,241**	$1,553	$1,922
Average interest rates	**8.9%**	7.6%	6.7%

Current maturities of long term debt (In millions)	**1989**	1988	1987
10.875% note, due October, 1990	**$100**	$ —	$ —
12.125% note, due 1993, called January, 1990	**64**	—	—
Bank loan, variable rate, due April, 1989	**—**	50	—
Zero coupon note, due 1989, $200 at maturity, yield 14.25%	**—**	194	—
Total	**$164**	$244	$ —

Long term debt (In millions)	**1989**	1988	1987
Original issue discount			
Zero coupon notes and 6% debentures, due 1992 to 1994 and 2006, $700 at maturity, yields 13.5% to 15.1%, effective rates 12.5% to 13.2%	**$ 395**	$ 355	$ 488
Debentures and notes			
5.375% to 8.875%, due 1991 to 1998	**378**	397	414
9% to 9.75%, due 1995 to 2016	**1,015**	1,023	831
10.2% to 11.875%, due 1990 to 1994	**109**	224	239
12.125% to 13.75%, due 1991 to 1993	**—**	143	295
Other	**50**	53	128
	1,947	2,195	2,395
Present value of commitments under capital leases	**189**	201	213
Guaranteed LESOP notes, 8.17%, due 1998*	**619**	668	—
Long term debt	**$2,755**	$3,064	$2,608
Average interest rates	**10.4%**	10.6%	10.9%

**For further discussion, see LESOP on page 18.*

Changes in long term debt (In millions)	**1989**	1988	1987
Increases			
9.375% to 9.45% notes, due 1990 to 1998	**$ —**	$200	$202
Amortization of original issue discount	**40**	60	52
Guaranteed LESOP notes, 8.17%, due 1998*	**—**	700	—
	40	960	254
Decreases			
12.75% notes, due 1991, called in 1989	**79**	—	—
13.625% and 13.75% notes, due 1991 and 1999, called in 1988	**—**	152	—
10.75% and 11.875% notes, due 1990, called in 1987	**—**	—	219
Transfers to current maturities of long term debt	**164**	244	—
Other, including LESOP amortization	**106**	108	82
	349	504	301
Net increase (decrease) in long term debt	**$(309)**	$456	$ (47)

**For further discussion, see LESOP on page 18.*

Maturities of long term debt (In millions)	Long term debt	Capital leases
1990	$ 201	$ 24
1991	105	24
1992	294	24
1993	47	24
1994	398	25
1995 to 1999	843	84
Thereafter	528	67
Total	$2,416	272
Less future interest and executory expenses		83
Present value		$189

Confirmed lines of credit available to JCPenney amounted to $1.2 billion. None was in use at January 27, 1990.

Stockholders' equity was $4,353 million at year end 1989, compared with $3,957 million at year end 1988, and $4,173 million at year end 1987.

Preferred stock. During 1988, a leveraged employee stock ownership plan (LESOP) was created (see page 18 for further discussion). The LESOP purchased approximately 1.2 million shares of a new issue of Series B convertible preferred stock from the Company. These shares are convertible into shares of the Company's common stock at a conversion rate equivalent to ten shares of common stock for each share of preferred stock. The convertible preferred stock may be redeemed at the option of the Company or the LESOP, under certain limited circumstances. The redemption price may be satisfied in cash or common stock or a combination of both at the Company's sole discretion. The dividends are cumulative, yield 7.9 per cent, and are payable semi-annually on January 1 and July 1. The convertible preferred stock issued to the LESOP has been recorded in the stockholders' equity section of the consolidated balance sheet and the "Guaranteed LESOP Obligation," representing borrowings by the LESOP, has been recorded as a reduction of stockholders' equity.

Preferred dividends declared were $56 million in 1989 and $28 million in 1988; on an after-tax basis, the dividends, which are tax deductible, amounted to $35 million in 1989 and $17 million in 1988.

Common stock. In 1988 and 1987, the Board of Directors authorized stock buy back programs of up to 20 million shares and 15 million shares, respectively. The 1987 program was completed in 1988.

Common stock purchases (In millions)	**1989**	1988	1987
Number of shares purchased	**3.1**	15.9	13.1
Cost	**$177**	$797	$604
Charged to reinvested earnings	**$156**	$688	$514
Charged to common stock	**$ 21**	$109	$ 90

All shares were retired and returned to the status of authorized but unissued shares of common stock. Amounts include Company purchases of common stock from a Company benefit plan in 1989, 1988, and 1987 of 950, 560, and 420 thousand shares, respectively.

Effective February 14, 1990, the Board of Directors declared a dividend distribution of one new preferred stock purchase right on each outstanding share of its common stock and authorized the redemption of the old preferred stock purchase rights for $12.5 million. The preferred stock purchase rights, in accordance with the rights agreement, entitle the purchase, for each right held, of 1/200 of a share of Series A junior participating preferred stock at a price of $280. The rights are exercisable upon the occurrence of certain events and are redeemable by the Company under certain circumstances, all as described in the rights agreement.

The quarterly common dividend was 56 cents per share in 1989, 50 cents in 1988, and 37 cents in 1987, or an annual rate of $2.24 per share in 1989, $2.00 in 1988, and $1.48 in 1987. Common dividends declared were $271 million in 1989, $260 million in 1988, and $218 million in 1987.

Changes in outstanding common stock	Shares (In thousands)			Amounts (In millions)		
	1989	1988	1987	**1989**	1988	1987
Balance at beginning of year	**122,830**	138,388	149,640	**$862**	$ 960	$961
Two-for-one stock split	**—**	—	—	**—**	—	38
Common stock issued	**572**	377	1,833	**24**	11	51
Common stock purchased and retired	**(3,055)**	(15,935)	(13,085)	**(21)**	(109)	(90)
Balance at end of year	**120,347**	122,830	138,388	**$865**	$ 862	$960

There were approximately 56 thousand stockholders of record at year end 1989. In addition, the savings plans had 101 thousand participants and held 17.3 million shares of the Company's common stock. The savings plans also held 1.2 million shares of preferred stock, convertible into 11.7 million shares of common stock. On a combined basis, these plans held approximately 22 per cent of the Company's common shares after giving effect to the conversion of the preferred stock.

1989 Equity Compensation Plan, 1989 Incentive Compensation Program, and 1984 Performance Unit Plan. In May 1989, stockholders approved the new 1989 Equity Compensation Plan (1989 Plan) which replaced the expiring 1984 Equity Compensation Plan (1984 Plan). Under the 1989 Plan, five million shares of common stock were reserved for issuance. Similar to the 1984 Plan, the 1989 Plan provides for the ability to grant a number of different types of awards, such as: stock awards, incentive stock options, nonqualified stock options, tax benefit rights (TBRs) in tandem with stock options, stock appreciation rights (SARs), discount options, and phantom stock with dividend equivalents. Awards under the 1989 Plan generally may be granted as stand alone awards or in tandem with one another. Options granted under the 1989 Plan generally become exercisable six months from the date of grant. The 1989 Plan also provides for annual grants of stock options and restricted stock awards to members of the Board of Directors not otherwise employed by the Company.

In each of the last three years, about $1 million was paid to officers through the exercise of SARs and TBRs. In 1989, 1988, and 1987, the Company issued to its officers a total of 383 thousand shares of restricted stock awards which generally vest over a five year period. The awards have conditions and restrictions which are designed to assure that the officers stay in the Company's service and retain stock ownership for many years.

In January 1989, the Board of Directors approved implementation of the 1989 Management Incentive Compensation Program (Program), effective February 1, 1989. The new Program replaces the 1976 General Management Profit Incentive Compensation Plan (1976 Plan). Eligibility under the Program is the same as the 1976 Plan.

The new Program consists of separate plans currently covering certain eligible employees versus the 1976 Plan which applied uniformly to all participants. Payments under the Program are tied to Company performance as measured against the current year's plan and the previous year's actual results.

Under the 1984 Performance Unit Plan, performance units are earned based on measurements of Company performance determined by the Personnel and Compensation Committee of the Board of Directors. Approximately $10 million was earned in 1989, $9 million in 1988, and $8 million in 1987.

	1989		1988		1987	
Stock options	Shares (In thousands)	Weighted average option price	Shares (In thousands)	Weighted average option price	Shares (In thousands)	Weighted average option price
Balance at beginning of year	**1,531**	**$34.36**	1,578	$29.15	1,920	$24.55
Granted	**524**	**53.07**	321	47.48	327	47.12
Exercised	**(552)**	**34.64**	(343)	22.17	(659)	24.60
Expired and cancelled	**(4)**	**47.84**	(25)	41.68	(10)	31.66
Balance at end of year	**1,499**	**$40.76**	1,531	$34.36	1,578	$29.15

Additional Financial Data

	1989		1988		1987	
Credit sales	Amounts (In billions)	Per cent of eligible sales	Amounts (In billions)	Per cent of eligible sales	Amounts (In billions)	Per cent of eligible sales
JCPenney credit card	**$8.1**	**50.9**	$7.2	49.0	$7.3	49.2
American Express, MasterCard, and Visa	**1.7**	**10.4**	1.5	10.0	1.3	9.2
Total	**$9.8**	**61.3**	$8.7	59.0	$8.6	58.4

Approximately 91 per cent of sales on the JCPenney credit card were made in accordance with the regular plan and the balance in accordance with the major purchase plan.

At year end, the number of JCPenney credit card accounts with outstanding balances was 17.4 million under the regular plan and 1.8 million under the major purchase plan. The average balances and maturities are shown in the table below:

	Average account balances			Average maturities (In months)		
	1989	1988	1987	**1989**	1988	1987
Regular plan	**$210**	$195	$189	**4.0**	4.0	4.0
Major purchase plan	**$526**	$514	$523	**9.5**	9.9	9.9
All	**$239**	$229	$230	**4.6**	4.7	4.9

Includes all customer receivables serviced.

Key JCPenney credit card information (In millions)	**1989**	1988	1987
Customer receivables			
Regular plan	**$3,683**	$3,153	$3,064
Major purchase plan	**924**	973	1,149
Total customer receivables serviced	**4,607**	4,126	4,213
Customer receivables sold	**600**	250	—
Total customer receivables	**$4,007**	$3,876	$4,213
Number of accounts with balances	**19.2**	17.9	18.2
Finance charge revenue	**$ 640**	$ 642	$ 676
Net bad debts written off	**$ 132**	$ 138	$ 167
Per cent of customer charges	**1.6**	1.8	2.1
Provision for doubtful accounts	**$ 133**	$ 138	$ 159
Accounts 90 days or more past due as a per cent of customer receivables	**2.0**	2.1	2.1

The Company's policy is to write off accounts when the scheduled minimum payment has not been received for six consecutive months, or if any portion of the balance is more than 12 months past due, or if it is otherwise determined that the customer is unable to pay. Collection efforts continue subsequent to write off, and recoveries are applied as a reduction of bad debt losses.

Advertising expense by the Company for newspapers, television, radio, and other media, excluding catalog preparation and distribution costs, was $414 million in 1989, as compared with $424 million in 1988, and $451 million in 1987.

Interest expense (In millions)	**1989**	1988	1987
Short term debt	**$113**	$ 90	$ 59
Long term debt	**232**	261	258
Income on short term investments	**(47)**	(43)	(24)
Other, net	**5**	(1)	7
Interest expense, net	**$303**	$307	$300

Rent expense (In millions)	**1989**	1988	1987
Minimum rent on noncancellable operating leases	**$215**	$198	$193
Rent based on sales	**37**	37	42
Minimum rent on cancellable personal property leases	**90**	106	115
Real estate taxes and common area costs	**110**	103	94
Total	**$452**	$444	$444

The Company conducts the major part of its operations from leased premises, which include retail stores, distribution centers, warehouses, offices, and other facilities. Almost all leases will expire during the next 20 years; however, most leases will be renewed or replaced by leases on other premises.

Minimum annual rents under noncancellable leases and subleases (In millions)	Gross rents	Net rents*
1990	$ 209	$ 135
1991	201	129
1992	194	126
1993	199	135
1994	188	130
Thereafter	1,318	896
Total	$2,309	$1,551
Present value		$ 850
Weighted average interest rate		10%

**Rents are shown net of their estimated executory costs, which are principally real estate taxes, maintenance, and insurance.*

Retirement plans (In millions)	**1989**	1988	1987
Pension			
Service cost	**$ 34**	$ 36	$ 39
Interest cost	**96**	90	80
Actual return on assets	**(213)**	(125)	(78)
Amortization	**75**	(6)	(49)
Pension credit	**(8)**	(5)	(8)
Savings plans expense	**47**	53	50
Total	**$ 39**	$ 48	$ 42

JCPenney's principal pension plan, which is noncontributory, covers substantially all United States employees who have completed 1,000 or more hours of service within a period of 12 consecutive months and have attained 21 years of age. In addition, the Company has an unfunded, noncontributory, supplemental retirement program for certain management employees.

Benefits payable at age 65 under the principal pension plan are 0.75 per cent of final average earnings up to the average Social Security wage base plus 1.25 per cent of final average earnings in excess of the average Social Security wage base times credited service up to 35 years. The benefit formula was amended effective January, 1989, in response to a change in regulations and resulted in the elimination of the Social Security offset.

In addition to changing the pension benefit formula, the Company adopted five year vesting, changed its discount rate, and updated its mortality assumption and retirement age to reflect current experience. These changes increased the pension benefit obligation.

The following table sets forth the funded status of the principal pension plan and the supplemental retirement program:

Pension plans funded status (In millions)	December 31 **1989**	1988	1987
Present value of accumulated benefits			
Vested	**$ 804**	$ 686	$ 615
Non-vested	**66**	72	73
	$ 870	$ 758	$ 688
Present value of actuarial benefit obligation	**$1,148**	$1,001	$ 934
Net assets at fair market value	**1,351**	1,164	1,071
Excess assets	**$ 203**	$ 163	$ 137
Key assumptions			
Actuarial method	**PUC***	PUC*	PUC*
Rate of return on plan assets	**9.5%**	9.5%	9.5%
Discount rate	**9.0%**	9.5%	9.5%
Salary progression rate	**6.0%**	6.0%	6.0%

**Projected unit credit.*

The present value of accumulated benefits is based on compensation and service to date. The present value of the actuarial benefit obligation considers estimates of future compensation, but not future service, and is used to determine pension expense (credit) and funding. No contribution was required or made in the past three years.

Certain changes in plan assets and in the actuarial benefit obligation are not recognized as they occur. In addition, at the date of adopting Financial Accounting Standards Board Statement No. 87, the Company had an unrecognized excess of plan assets over the actuarial benefit obligation. These unrecognized changes more than offset the end of year excess of plan assets over the actuarial benefit obligation and are systematically amortized over subsequent periods. The Company's consolidated financial statements reflect a prepaid pension expense.

LESOP. In 1988, the Company created a leveraged employee stock ownership plan (LESOP), which replaced the Company's employee savings and profit-sharing retirement plan, effective January 1, 1989.

The LESOP borrowed $700 million at an interest rate of 8.17 per cent in a 10-year loan guaranteed by the Company. The LESOP used the proceeds of the loan to purchase a new issue of convertible preferred stock from the Company. The preferred stock is convertible into approximately 11.7 million shares of the Company's common stock. The dividend yield on the preferred stock is 7.9 per cent and the conversion price is $60.00 per common share.

The Company is using the proceeds from the issuance of preferred stock to the LESOP to purchase up to 15 million common shares in the open market.

The Company has reflected the guaranteed LESOP borrowing as long term debt on the balance sheet. The convertible preferred stock issued to the LESOP for cash was recorded in the equity section. A like amount of "Guaranteed LESOP Obligation" was recorded as a reduction of stockholders' equity. As the Company makes contributions to the LESOP, these contributions, plus the dividends paid on the Company's preferred stock held by the LESOP, will be used to repay the loan. As the principal amount of the loan is repaid, the "Guaranteed LESOP Obligation" is reduced accordingly.

The amount of compensation cost recorded by the Company is the total cash payment made to the LESOP reduced by the portion representing dividends on the preferred stock. This method is consistent with the decisions reached by the Financial Accounting Standards Board in 1989.

The employee eligibility requirement and investment options of the LESOP are virtually the same as those of the Company's former employee savings and profit-sharing retirement plan.

Total assets and equity (In millions)	Savings plans December 31 **1989**	1988	1987	Pension December 31 **1989**	1988	1987
JCPenney common stock (17, 18, and 20 million shares at cost: $579, $507, and $511)	**$1,267**	$ 919	$ 856	**$ —**	$ —	$ —
JCPenney preferred stock (1, 1, and 0 million shares at cost: $704, $706, and $0)	**854**	706	—	**—**	—	—
Funds with insurance companies	**855**	778	681	**—**	—	—
Equity securities (cost: $21, $16, $19, $865, $801, and $780)	**52**	39	40	**1,060**	889	815
Fixed income investments (cost: $6, $2, $7, $179, $172, and $161)	**6**	2	7	**178**	170	156
Real estate (cost: $86, $85, and $84)	**—**	—	—	**108**	103	99
LESOP loan obligation, including accrued interest of $26, $19, and $0	**(670)**	(719)	—	**—**	—	—
Other assets, net	**13**	38	54	**5**	2	1
Net assets	**$2,377**	$1,763	$1,638	**$1,351**	$1,164	$1,071

Changes in fair value of retirement plans' net assets (In millions)	Savings plans December 31 **1989**	1988	1987	Pension December 31 **1989**	1988	1987
Net assets at beginning of year	**$1,763**	$1,638	$1,424	**$1,164**	$1,071	$1,019
Company contribution	**47**	53	50	**—**	—	—
Participants' contributions	**144**	117	112	**—**	—	—
Investment income	**216**	132	142	**101**	66	156
Unrealized appreciation (depreciation) of investments	**516**	115	103	**129**	59	(78)
LESOP interest expense	**(54)**	(19)	—	**—**	—	—
Benefits paid	**(255)**	(273)	(193)	**(43)**	(32)	(26)
Net assets at end of year	**$2,377**	$1,763	$1,638	**$1,351**	$1,164	$1,071

Post-retirement health care benefits. The Company provides post-retirement health care benefits to retired employees and their dependents meeting certain eligibility requirements. The Company recorded expenses for these benefits as incurred in the amounts of $14 million, $12 million, and $11 million in 1989, 1988, and 1987, respectively.

Income tax expense (In millions)	**1989**	1988	1987
Current			
Federal	**$ 431**	$380	$411
State and local	**84**	75	55
	515	455	466
Deferred			
Federal	**(129)**	(66)	(89)
State and local	**(18)**	(4)	(6)
	(147)	(70)	(95)
Total income tax expense	**$ 368**	$385	$371
Effective tax rate	**31.5%**	32.3%	37.9%

Reconciliation of tax rates	Amounts (In millions)			Per cent of pre-tax income		
	1989	1988	1987	**1989**	1988	1987
Federal income tax statutory rate	**$398**	$405	$383	**34.0**	34.0	39.0
State and local income taxes, less Federal income tax benefit	**43**	46	30	**3.7**	3.9	3.1
Reduction of deferred taxes on installment sales*	**(52)**	(42)	(17)	**(4.4)**	(3.5)	(1.7)
Capital gains benefits and other	**(21)**	(24)	(25)	**(1.8)**	(2.1)	(2.5)
Total income tax expense	**$368**	$385	$371	**31.5**	32.3	37.9

**Resulting from payment of taxes on installment sales previously deferred at higher tax rates.*

Taxes other than income taxes, over half of which were payroll taxes, totaled $353 million in 1989, as compared with $374 million in 1988, and $334 million in 1987.

Deferred taxes consist principally of deferred gross profit on the balances due on installment sales, accelerated depreciation, and accounting for leases.

In the early 1980s, the Company acquired certain assets under leveraged lease arrangements and purchased tax benefits under the provisions of various federal income tax acts. For income tax purposes, the Company received certain income tax deductions and credits that were used to reduce income taxes otherwise payable. Deferred taxes were provided to reflect the reversal of those tax benefits in future years.

The Tax Reform Act of 1986 eliminated the deferral of income taxes on revolving credit installment sales after fiscal year 1986 and provided that deferred taxes previously established were to be paid over the period 1987 to 1990 in installments of 15, 25, 30, and 30 per cent. At the end of fiscal year 1989, the balance of deferred taxes on installment sales reflected on the balance sheet was $197 million. The last installment, due in 1990, is shown in the current portion of deferred taxes at the prevailing statutory rate and is approximately $52 million less than the amount originally provided in the financial statements. Accordingly, income tax expense in fiscal year 1990 will be reduced by that amount.

The Financial Accounting Standards Board issued Statement No. 96 (Accounting for Income Taxes) in 1987. This standard requires an asset and liability approach to accounting for differences between the tax basis of an asset or liability and its reported amount in the financial statements (temporary differences). The standard, as amended in 1989, allows a transition period which provides flexibility for adoption up to the first quarter of 1992. The Company did not adopt this standard in 1989. Under the accounting rules, deferred taxes will be determined by applying the provisions of enacted tax laws, and adjustments will be required for changes in tax laws and rates. If the liability method had been applied in 1989, deferred taxes reflected on the balance sheet would have been reduced by approximately $100 million, and stockholders' equity would have increased by the same amount. The accounting standard permits either a restatement of previously issued financial statements or the inclusion of the cumulative effect of changing to the new standard as a separate component of net income in the year the standard is adopted. The Company is still evaluating the two methods of adoption.

Other Businesses

JCPenney Financial Services consists of the operations of the Company's insurance subsidiaries, JCPenney Life Insurance Company and JCPenney Casualty Insurance Company. JCPenney Life Insurance Company markets life, health, and credit insurance through direct response. The personal lines operation of JCPenney Casualty Insurance Company was sold to MetLife Property and Casualty Insurance Company, a subsidiary of Metropolitan Life Insurance Company of New York, in 1989. The Company did not incur any significant gain or loss in exiting the casualty insurance business.

JCPenney National Bank offers Visa and MasterCard credit cards. At the end of the year, about 405 thousand credit card accounts were active.

JCP Realty, Inc. is engaged in the development and operation of real estate through participation in joint ventures.

At year end, JCP Realty, Inc. had interests in more than 80 projects, primarily regional shopping centers. More than 60 of these were in operation, and the balance were in various stages of development.

Other revenue (In millions)	**1989**	1988	198.
Insurance premiums and investment income	**$197**	$351	$35
Bank interest and fees, principally bankcard	**105**	90	4
Real estate development operation	**—**	22	2
Total	**$302**	$463	$41.

Costs and expenses of other businesses (In millions)	**1989**	1988	1987
Benefits, claims costs, and expenses of insurance operation	**$159**	$327	$318
Interest expense and bad debts of banking operation	**94**	75	38
Real estate development operation	**9**	3	3
Other, principally Telaction and Shop Television Network	**17**	82	42
Total	**$279**	$487	$401

Net income (loss) of other businesses (In millions)	**1989**	1988	1987
JCPenney Financial Services	**$26**	$18	$26
JCPenney National Bank	**6**	5	1
JCP Realty, Inc.*	**(7)**	14	13
Total	**$25**	$37	$40

**Includes gains, net of taxes, of $3, $15, and $9 from sales of interests in shopping center ventures.*

Assets of other businesses (In millions)	**1989**	1988	1987
JCPenney Financial Services, principally investments	**$ 739**	$ 859	$ 886
JCPenney National Bank, principally bankcard receivables	**584**	584	313
JCP Realty, Inc., investments in real estate joint ventures	**90**	81	74
Total	**$1,413**	$1,524	$1,273

Liabilities of other businesses (In millions)	**1989**	1988	1987
JCPenney Financial Services, principally policy and claims reserves	**$ 400**	$ 499	$497
JCPenney National Bank, principally customer deposits	**540**	488	290
JCP Realty, Inc.	**126**	115	105
Total	**$1,066**	$1,102	$892

Quarterly Data (Unaudited)

(In millions except per share data)	First			Second			Third			Fourth		
	1989	1988	1987	**1989**	1988	1987	**1989**	1988	1987	**1989**	1988	1987
Retail sales	**$3,341**	3,174	3,224	**3,438**	3,211	3,409	**4,061**	3,610	3,756	**5,263**	4,838	4,943
Per cent increase (decrease)	**5.2**	(1.6)	5.9	**7.1**	(5.8)	5.8	**12.5**	(3.9)	7.8	**8.8**	(2.1)	(0.9)
Total revenue	**$3,408**	3,279	3,324	**3,512**	3,341	3,508	**4,141**	3,726	3,863	**5,344**	4,950	5,052
Per cent increase (decrease)	**4.0**	(1.4)	5.7	**5.1**	(4.8)	5.6	**11.1**	(3.5)	7.8	**8.0**	(2.0)	(0.9)
Gross margin, per cent of retail sales	**36.0**	36.1	35.8	**33.8**	33.4	32.9	**35.7**	35.8	34.8	**34.2**	33.3	32.3
Selling, general, and administrative expenses, per cent of retail sales	**27.3**	26.9	26.6	**27.8**	27.5	26.2	**26.4**	27.0	25.1	**22.6**	22.8	21.3
Income before nonrecurring items	**$ 148**	131	136	**98**	81	103	**209**	160	171	**367**	296	296
Per cent increase (decrease)	**13.0**	(3.8)	55.8	**21.2**	(21.3)	81.0	**30.5**	(6.7)	47.6	**23.8**	0.1	9.6
Net income	**$ 128**	131	54	**98**	81	103	**209**	160	171	**367**	435	280
Net income per common share												
Primary	**$ .97**	.96	.36	**.74**	.61	.68	**1.65**	1.17	1.14	**2.95**	3.28	1.93
ully diluted	**$ .93**	.96	.36	**.72**	.61	.68	**1.52**	1.16	1.14	**2.69**	3.19	1.93
Dividends per common share	**$ .56**	.50	.37	**.56**	.50	.37	**.56**	.50	.37	**.56**	.50	.37
Common stock price range												
High	**$ 56**	51	52	**60**	51	60	**69**	55	65	**75**	54	48
ow	**$ 51**	40	40	**55**	44	46	**60**	46	38	**64**	51	38

Five Year Financial Summary

J.C. Penney Company, Inc. and Subsidiaries

Results for year (In millions except per share data)	**1989**	1988	1987	1986	1985
Total revenue	**$16,405**	15,296	15,747	15,151	14,146
Retail sales	**$16,103**	14,833	15,332	14,740	13,747
Sales of JCPenney stores and catalog	**$15,116**	13,951	13,980	13,390	12,634
Per cent increase (decrease)	**8.4**	(0.2)	4.4	6.0	2.1
Per cent increase in general merchandise inflation	**0.7**	3.2	2.8	1.2	2.0
Gross margin, per cent of retail sales	**34.8**	34.5	33.8	33.6	32.8
Selling, general, and administrative expenses, per cent of retail sales	**25.6**	25.7	24.4	24.9	25.1
Interest expense, net, per cent of retail sales	**1.9**	2.1	2.0	2.3	2.7
Depreciation and amortization	**$ 275**	258	241	229	212
Income before income taxes and nonrecurring items	**$ 1,202**	970	1,151	964	679
Per cent of total revenue	**7.3**	6.3	7.3	6.3	4.8
Income taxes	**$ 368**	385	371	434	282
Income before nonrecurring and extraordinary items*	**$ 822**	668	706	530	397
Per cent increase (decrease) from prior year	**23.0**	(5.4)	33.2	33.5	(8.7)
Per cent of stockholders' equity	**20.8**	16.0	16.3	13.1	10.4
Net income	**$ 802**	807	608	478	397
Earnings per common share					
Primary					
Income before nonrecurring and extraordinary items*	**$ 6.47**	4.96	4.77	3.53	2.66
Net income	**$ 6.31**	6.02	4.11	3.19	2.66
Fully diluted					
Income before nonrecurring and extraordinary items*	**$ 6.01**	4.90	4.77	3.51	2.63
Net income	**$ 5.86**	5.92	4.11	3.17	2.63
Per common share					
Dividends	**$ 2.24**	2.00	1.48	1.24	1.18
Stockholders' equity	**$ 36.17**	32.18	30.15	29.00	27.16
Financial position					
Receivables, net	**$ 4,353**	4,233	4,536	4,614	4,504
Merchandise inventories	**$ 2,613**	2,201	2,350	2,168	2,298
Properties, net	**$ 3,237**	3,034	2,910	2,919	2,812
Capital expenditures	**$ 519**	487	376	350	426
Total assets	**$12,698**	12,254	11,734	11,846	11,131
Total debt	**$ 4,207**	4,064	3,563	3,736	3,839
Stockholders' equity	**$ 4,353**	3,957	4,173	4,340	4,051
Number of common shares outstanding at year end	**120**	123	138	150	149
Weighted average common shares					
Primary	**122**	131	148	150	150
Fully diluted	**134**	136	148	151	151
Number of employees at year end (In thousands)	**198**	190	181	176	177

**Extraordinary item is 1986 debt restructure charge.*
All per share amounts reflect the 1987 two-for-one stock split.

Five Year Operations Summary

J.C. Penney Company, Inc. and Subsidiaries

	1989	1988	1987	1986	1985
JCPenney metropolitan market stores					
Number of stores	**693**	698	699	707	729
Gross selling space (In million sq. ft.)	**94.5**	94.7	95.4	96.1	96.7
Sales (In millions)	**$12,252**	11,313	11,463	11,001	10,382
Sales per gross square foot	**$ 128**	118	119	114	107
JCPenney geographic market stores					
Number of stores	**635**	657	679	696	753
Gross selling space (In million sq. ft.)	**18.3**	18.6	18.2	18.4	18.8
Sales (In millions)	**$ 2,217**	2,051	1,965	1,887	1,783
Sales per gross square foot	**$ 119**	113	106	101	93
Number of JCPenney stores	**1,328**	1,355	1,378	1,403	1,482
Catalog					
Number of sales facilities	**1,971**	1,879	1,837	1,825	1,733
Number of distribution centers	**6**	6	6	6	6
Distribution space (In million sq. ft.)	**11.4**	11.4	11.4	11.4	11.4
Sales (In millions)	**$ 3,205**	2,918	2,585	2,332	2,000
Drug stores					
Number of stores	**471**	434	407	390	374
Gross selling space (In million sq. ft.)	**4.7**	4.4	4.2	4.1	4.0
Sales (In millions)	**$ 1,088**	976	875	802	702
Sales per gross square foot	**$ 250**	236	215	204	180

Catalog sales made through JCPenney stores and drug stores are included in the sales of those stores as well as in Catalog.

Public Affairs

The Company continued to reinforce its commitment to the health and vitality of the communities in which it does business through charitable contributions, community service programs, and minority supplier development.

In 1989, charitable contributions were $17.8 million Company-wide. Approximately 65 per cent of the contributions were made by JCPenney stores and facilities to local community programs. The remainder was granted to national organizations with programs that impact communities across the country. JCPenney employees pledged an additional $6.5 million to local United Ways through payroll deduction and one-time gifts.

Community service programs were augmented by the second production of the Golden Rule Network. The Network utilizes the Company's business television network to provide information and materials on social issues to the communities where we do business. The initial broadcast in 1988 dealt with teenage substance abuse. The 1989 program focused on the issue of stress among teenagers.

The Company continues to promote volunteerism through the James Cash Penney Awards, which recognize JCPenney employees for outstanding volunteer activities in their communities. The Golden Rule Awards program provides similar recognition to volunteers outside the Company. This program was expanded to 110 markets in 1989 and contributed $432 thousand to local organizations.

The Company is committed to expanding the purchase of merchandise and services from minority-owned companies. During 1989, purchases from minority-owned businesses were $335 million, representing relationships with 1,830 suppliers.

J.C. Penney Company, Inc.

Directors

M. Anthony Burns[1,4]
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Colby H. Chandler[3,4]
Chairman and Chief Executive Officer, Eastman Kodak Company

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Formerly President, American Telephone and Telegraph Company

Clifton C. Garvin, Jr.[1,2]
Formerly Chairman and Chief Executive Officer, Exxon Corporation

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Vice Chairman of the Board

William R. Howell
Chairman of the Board

Vernon E. Jordan, Jr.[2,4]
Partner, Law Firm of Akin, Gump, Strauss, Hauer & Feld

Juanita M. Kreps[1,4]
Economist and Educator, Formerly United States Secretary of Commerce

George Nigh[3,4]
Formerly Governor of Oklahoma

Jane C. Pfeiffer[2,3]
Independent Management Consultant

Joseph D. Williams[5]
Chairman and Chief Executive Officer, Warner-Lambert Company

Walter B. Wriston[1,3,5]
Formerly Chairman, Citicorp and Citibank, N.A.

Boris Yavitz[1,2,5]
Paul Garrett Professor of Public Policy and Business Responsibility and Former Dean, Graduate School of Business, Columbia University

Office of the Chairman

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Chairman of the Board

Robert B. Gill
Vice Chairman of the Board and Chief Operating Officer, JCPenney Stores and Catalog

JCPenney Stores

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Executive Vice President
Director of JCPenney Stores

W. Barger Tygart
Executive Vice President
Director of Merchandising

C. Kenneth Ogg
Vice President
Director of Operations, Services, and Inventory Management

Charles W. Stewart
Vice President
Director of Strategic Development for JCPenney Stores and Catalog

John T. Cody, Jr.
President
Northwestern Region

William J. Ferguson
President
Southwestern Region

R.H. Seaman
President
Southeastern Region

Richard C. Sherwood
President
Northeastern Region

James L. Hailey
President
Children's Division

Thomas D. Hutchens
President
Men's Division

James J. Kennedy
President
Home and Leisure Division

John A. McConville
President
Women's Division

J. Thomas Arthur
Vice President
Director of Marketing, Home and Leisure Division

Marshall Beere
Vice President
Director of Merchandising, Women's Division

Andrew Cumming
Vice President
Director of Marketing, Children's Division

Marilee J. Cumming
Vice President
Director of Merchandise Development, Women's Division

David E. Fulcomer
Vice President
Director of Merchandise, Home and Leisure Division

Ralph W. LaRovere
Vice President
Director of Merchandising, Men's Division

W.E. McCarthy
Vice President
Director of Merchandising, Women's Division

J. Raymond Pierce
Vice President
Director of Merchandising, Men's Division

Kenneth T. Russo
Vice President
Director of Merchandising, Women's Division

Joseph P. Sapienza
Vice President
Director of Merchandise Development, Men's Division

Henry H. Scott
Vice President
Director of Merchandise, Children's Division

Catalog

Rodney M. Birkins
President

Julius L. Debbs
Vice President
Director of Merchandising

Peter G. Fenlon
Vice President
Director of Sales and Operations

William J. Kelly
Vice President
Director of Advertising and Publications

Corporate

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Executive Vice President
Director of Corporate Personnel and Administration

Robert E. Northam
Executive Vice President
Chief Financial Officer

Terry S. Prindiville
Executive Vice President
Director of Support Services

Charles R. Lotter
Senior Vice President
Secretary and General Counsel

Ted L. Spurlock
Senior Vice President
Director of Credit and Financial Services

John A. Wells
Senior Vice President
Director of Real Estate, Construction Services, and Specialty Retailing

Robert O. Amick
Vice President
Controller

Charles L. Brown
Vice President
Director of Auditing

James P. Bryant
Vice President
Director of Corporate Taxes

Joseph J. DeMelio
Vice President
Director of Insurance

Gale Duff-Bloom
Vice President
Director of Investor Relations

David V. Evans
Vice President
Director of Information Systems

Anton C. Haake
Vice President
Director of Quality Assurance

Robert J. Keller
Vice President
Director of Construction Services

Russell H. Longyear
Vice President
Director of Communications

Donald A. McKay
Vice President
Treasurer

M. Christopher Sears
Vice President
Director of Public Affairs and Executive Assistant to the Chairman

Michael Todres
Vice President
Director of Distribution and Non-Resale Purchasing

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Leo A. Gispanski

Assistant Secretaries

Frank J. Bonet
Thomas M. Comerford
Cornelius T. Dorans
John V. Faltermeier
Margaret R. Johnson
Richard M. Kleid
Eugene P. McGreal

Assistant Treasurers

Robert B. Cavanaugh
Thomas A. Clerkin

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1. Member of the Audit Committee of the Board of Directors. This committee recommends to the Board of Directors the independent auditors to be employed for the purpose of conducting the annual audit of the Company's financial statements, discusses with the auditors the scope of their examination, reviews the Company's financial statements and the auditors' report w Company personnel and the auditors, determines whether the auditors have received all the explanations and information they had requested, and invites the recommendations of the auditors regarding internal controls and other matters.
2. Member of the Public Affairs Committee. This committee identifies, analyzes, and brings to the attention of the Board social and environmental trends and public policy issues which may have a potential impact on the business performance and investment character of the Company. It assures that Company policy and performance reflect a sensitivity toward the social a physical environments in which the Company does business and that such policy and performance are in accord with the public interest.
3. Member of the Committee on Directors. This committee makes recommendations to the Board with respect to the size, composition, and functions of the Board of Directors, the qualifications of directors, candidates for election as directors, and the compensation of directors.
4. Member of the Personnel and Compensation Committee. This committee reviews the Company's annual and long term incentive compensation plans, makes recommendations in area concerning personnel relations, and takes action or makes recommendations with respect to the compensation of Company executive officers, including those who are directors. It is als the committee which acts under certain of the Company's incentive compensation and retirement plans.
5. Member of the Benefit Plans Review Committee. This committee reviews annually the financial condition and investment performance results of the Company's retirement plans, annual actuarial valuation reports for the Company's pension plan, and the financial condition, investment performance results, and actuarial valuation aspects of the Company's welfare plans.

All of the committees described above are composed entirely of outside directors.

J.C. Penney Company, Inc.
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